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e-Procurement: Revolutionizing the Healthcare Supply Chain

A Lawson Software White Paper

Introduction

Measurable Differences Come to Light

Tangible Benefits of e-Procurement

Lawson Software Healthcare Procurement Survey

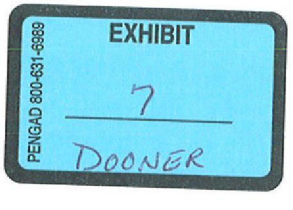
lawson.insight™ e-Procurement Service Rises to the Challenge

A True e-Commerce Solution

Building on a Proven Track Record

The Case for e-Procurement and lawson.insight e-Procurement Service

Summary



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Measurable Differences Come to Light

Despite the use of some electronic technologies, such as fax and electronic data interchange (EDI), procurement in healthcare consists largely of cumbersome, labor intensive processes.

To understand just how inefficient and costly these processes are, let's start by looking at a typical procurement scenario: a hospital pediatrics department ordering a special type of bandage (non-stock item).

Listed are the steps involving human intervention, comparing traditional procurement with e procurement.

Traditional Procurement vs. e-Procurement

Traditional Procurement (Using paper, fax, telephone and/or EDI)

1. Staff member completes paper requisition for bandages.
2. Staff member routes requisition to supervisor for approval.
3. Supervisor approves requisition.
4. Requisition is sent via interoffice mail to the purchasing department.
5. Purchasing staff keys order into purchasing system.
6. Purchasing agent determines product sourcing and obtains price information.
7. Purchasing staff faxes purchase order to vendor.
8. Vendor keys order into its order entry system.
9. Vendor faxes back to hospital an order confirmation, along with availability and price information.
10. Purchasing staff uses fax to update EBA/ERP system.
11. Bandages are shipped to receiving dock.
12. Receiving staff enters receipt information into EBA/ERP system and labels bandages for delivery to end-user.
13. Order is delivered to end user, and signature is obtained to verify physical receipt.
14. Signed receiving ticket is filed or retained as proof of delivery.
15. Vendor generates and mails paper invoice.
16. Hospital accounts payable staff attempts to match invoice with receipt and purchase order.
17. Accounts payable staff works with end user, purchasing staff and vendor to resolve any discrepancies among match documents.
18. Hospital accounts payable staff prepares and mails paper check to vendor.
19. Vendor processes paper check.

A procurement process that once required up to 19 "touches" (human intervention) is streamlined to the point where five or fewer touches are required.

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e-Procurement

1. Hospital staff member uses a personal computer (desktop or central station) to order bandages from an electronic catalog. Available vendors and products are pre-selected by procurement staff, based on maximizing value while meeting the needs of customers.
2. An electronic requisition is automatically routed to the supervisor's desktop for approval (only if required).
3. Upon receiving the order via the internet (or extranet), the vendor sends back information to electronically update the hospital's ordering system with current pricing, availability and delivery details, thus ensuring a seamless information match.
4. Vendor ships the bandages to the hospital, pre-labeled for delivery to the end user.
5. Upon receiving product, the end user verifies receipt through a web browser, automatically triggering electronic payment to the vendor.

In fact, the disparity could easily be greater. The traditional procurement process is frequently burdened by even more points of human intervention. For example, the vendor may call the hospital's accounts payable department to check on the status of an invoice. Or the hospital's purchasing department might spend considerable time and resources checking on delivery status or attempting to expedite the order. With e-procurement, important information is automatically and electronically "pushed" to the desktop of the person who needs it — no human intervention is required at any point.

The hospital can further reduce human intervention by implementing an automated par inventory system. As soon as the inventory of a commonly used item falls below a specified level, a requisition and/or purchase order for that item is automatically generated and transmitted to central supply (or vendor).

Reality or Pie in the Sky?

Although it has not yet been widely embraced by the healthcare industry, e-procurement is not a novel, unproven concept. Other industries have already seized the opportunity and are reaping huge dividends.

For example, a leading manufacturer of jeans has established an automated supply chain that has eliminated human intervention from the replenishment process. When a customer purchases a pair of jeans from a retailer, this information is electronically sent from point of sale directly to the manufacturer. Within 24 hours, a pair of replacement jeans — same style and size — is shipped to the retailer.

For the retailer, this system translates to lower inventory and process costs. For the manufacturer, it means a more efficient and cost effective way to keep retailers stocked with the products consumers want.

While healthcare organizations certainly have unique needs, the fundamentals of e-procurement are the same for all industries. Furthermore, some companies, including Lawson Software, have developed e-procurement solutions featuring advanced healthcare-specific functionality.

The rapid rise of e-procurement, and e-commerce in general, is certain to gain momentum, based on the results of numerous studies. According to Goldman Sachs, 11% of the U.S. business economy will be conducted via the internet by 2003. e-Commerce transactions amounted to $131 billion in 1999, says Forrester Research, and will increase to a staggering $1.3 trillion by 2003. Giga Research estimates that by 2003, e-commerce will save U.S. businesses $500 billion.

For the healthcare industry, it's time to realize the many tangible, measurable benefits of e-procurement.

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